



OFFICE OF AUDITOR OF ACCOUNTS

[REQUEST FOR PROPOSALS](#)

FOR

PROFESSIONAL AUDITING SERVICES

AUGUST 13, 2010

**DEPARTMENT OF INSURANCE
FINANCIAL AUDIT**

RFP11-CPA-01

by

State of Delaware
Office of Auditor of Accounts
Townsend Building, Suite 1
401 Federal Street
Dover, Delaware 19901

OFFICE OF AUDITOR OF ACCOUNTS

REQUEST FOR PROPOSALS

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OFFICE OF AUDITOR OF ACCOUNTS
REQUEST FOR PROPOSALS

I. INTRODUCTION

A. General Information

In accordance with 29 *Del. C.* Chapter 69, Subchapter VI, *Professional Services*, the Office of Auditor of Accounts (AOA) is distributing this Request for Proposal (RFP) to, and requesting proposals from qualified certified public accounting firms to perform a financial audit of the Department of Insurance for the fiscal year ended June 30, 2010. This audit is to be performed in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits set forth in the U.S. Government Accountability Office's (GAO) *Government Auditing Standards*.

There is no expressed or implied obligation for AOA to reimburse responding firms for any costs or expenses incurred in preparing proposals in response to this request. AOA will not pay any costs or expenses incurred by any firm associated with any aspect of responding to this RFP, including proposal preparation, printing, or delivery, or the negotiation process. Additionally, no indirect reimbursements (e.g., in the form of credits or reductions to any agreed upon compensation) shall be made to any responding firm by AOA for any such costs or expenses.

A *mandatory* pre-proposal conference for all the firms interested in submitting a proposal will be held at 10:00 a.m. on August 25, 2010 in the Office of Auditor of Accounts' 3rd Floor Conference Room, Townsend Building, 401 Federal Street, Dover, DE 19901 to answer questions about the audit. After this *mandatory* pre-proposal conference, any inquiries concerning the RFP should be emailed to both of the following AOA personnel.

Kathleen A. O'Donnell, CPA-PA, CISA, CGFM, CGAP
Chief Administrative Auditor
302-857-3919 (Kathleen.ODonnell@state.de.us)

Candace M. Casto, CGFM
Senior Manager, Contracts & Administration
302-857-3910 (Candace.Casto@state.de.us)

To be considered, **four copies (original plus three copies)** of the *technical* proposal must be sent to Kathleen A. O'Donnell, CPA-PA, CISA, CGFM, CGAP, Chief Administrative Auditor, and **two copies (original plus one copy)** of the *cost* proposal must be sent to Candace M. Casto, CGFM, Senior Manager, Contracts & Administration, both at Office of Auditor of Accounts, Townsend Building, Suite 1, 401 Federal Street, Dover, DE 19901 by 3 p.m. (EST) on September 8, 2010. **ALL PROPOSALS MUST BE DELIVERED TO AOA'S THIRD FLOOR OFFICE IN THE TOWNSEND BUILDING, SUITE 1, 401 FEDERAL STREET, DOVER, DE 19901. IF USING FEDERAL EXPRESS OR ANOTHER COMPANY, PLEASE DO NOT DELIVER TO THE DIVISION OF CORPORATIONS, OR ANY OTHER AGENCY IN THE TOWNSEND BUILDING.** AOA reserves the right, exercised in its sole discretion, to reject any or all proposals submitted.

Proposals submitted may be evaluated by the following: Chief Administrative Auditor, Senior Manager, Contracts & Administration; Audit Manager; and/or Audit Supervisor if he/she is in charge or involved with the audit. A representative from the auditee's office and/or oversight agency may also be on the Evaluation Committee.

During the evaluation process, AOA's staff reserves the right, where it may serve the State of Delaware's best interests, to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of AOA staff or the Evaluation Committee, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

AOA reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this RFP, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between AOA and the firm selected.

It is anticipated the selection of a firm will be completed by September 20, 2010. Following the notification of the selected firm, it is expected a contract will be executed between both parties by September 30, 2010.

B. Term of Engagement

This contract will be for one year.

C. Subcontracting

The work will not be subcontracted.

II. NATURE OF SERVICES REQUIRED

B. General

AOA is soliciting the services of qualified certified public accounting firms (CONTRACTOR) to perform a financial audit of the Department of Insurance for the fiscal year ended June 30, 2010. This audit is to be performed in accordance with the provisions contained in this RFP.

B. Scope of Work to be Performed

AOA desires the auditor to express an opinion on the fair presentation of the Department of Insurance's basic financial statements in conformity with accounting principles generally accepted in the United States of America and auditing standards generally accepted in the United States of America and the standards for financial audits set forth in the U.S. Government Accountability Office's (GAO) *Government Auditing Standards*.

Please note that the CONTRACTOR will not be required to prepare the financial statements. Please refer to section 3.28 and 3.29 of the Government Auditing Standards to ensure compliance with Independence.

C. Auditing Standards to be Followed

To meet the requirements of this RFP, the audit shall be performed in accordance in accordance with the auditing standards generally accepted in the United States of America and the standards for financial audits set forth in the U.S. Government Accountability Office's (GAO) *Government Auditing Standards*.

D. Deliverables

A detailed audit plan and programs must be submitted to AOA staff for their review and approval before work can start.

The CONTRACTOR shall issue the following reports with the results of the audit.

1. Draft report
2. Final report

The CONTRACTOR should include the scope of their work on internal control and any significant deficiencies noted within the context of the audit objectives and based upon the work performed.

Irregularities and illegal acts. All situations or transactions that come to the auditor's attention that could be indicative of fraud, abuse, illegal acts, material errors, defalcations, or other irregularities shall be promptly reported to AOA and AOA will determine the appropriate course of action.

E. Audit Documentation Retention and Access to Audit Documentation

All audit documentation and reports must be retained, at the auditor's expense, for a minimum of three years, unless the firm is notified in writing by AOA of the need to extend the retention period. The CONTRACTOR will be required to make audit documentation available, upon request, to the following parties or their designees:

- Office of Auditor of Accounts
- U.S. Department of Health and Human Services
- U.S. Government Accountability Office (GAO)
- Parties designated by the federal or state governments or by AOA as part of an audit quality review process

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review audit documentation relating to matters of continuing accounting significance.

III. DESCRIPTION OF THE GOVERNMENT

A. Location of Office

The records for the Department of Insurance are primarily located in the main office located at 841 Silver Lake Blvd., Dover, DE 19904.

B. Background Information

The Department of Insurance's fiscal year ends June 30, 2010.

The Department of Insurance provides the following services to its citizens, consumers, and businesses:

- The Department of Insurance, including the Commissioner's Office consists of five principal divisions and two additional programs, which are:
 - Bureau of Captive & Financial Insurance Products
 - Regulates captive insurance companies consistent with their nature and purpose.
 - Provides flexibility and opportunity to captive insurance companies and to persons utilizing them.
 - Fosters economic development in the State through the growth of the captive insurance industry.
 - Bureau of Company Examination, Rehabilitation & Guaranty
 - To ensure reliable insurance coverage at reasonable rates for Delaware consumers.
 - Reviews applications to do business in Delaware.
 - Monitors the financial operations of the 1,500 foreign and 150 domestic insurers licensed in Delaware.
 - Monitors and market conduct of insurers operating in Delaware.
 - Approves or contests their rate filing.
 - Rehabilitates or liquidates financially impaired insurers.
 - Consumer Services & Investigations Division
 - Provides information on how to make decisions that can lower the cost of insurance and increase the value the consumer receives.
 - Assists consumers in resolving conflicts with insurance companies, health coverage providers, and agents.
 - Provides arbitration hearings as a low-cost alternative to civil litigation to resolve disputed consumer claims.
 - Investigates concerns regarding all types of insurance and utilizes consumer input to review market trends, statute and rule violations, and to develop changes to the insurance law.
 - Fraud Prevention Bureau
 - To reduce the cost of insurance fraud to consumers.
 - Investigates property and casualty, auto, life, health, workers compensation, provider and agent insurance fraud.
 - Provides a focal point for the anti-fraud efforts of insurance company investigators, law enforcement agencies, and prosecutors to achieve a cooperative and coordinated approach to the detection, investigation, and prosecution of insurance fraud.
 - Producer Licensing & Continuing Education Division

- To ensure competency and ethical conduct by insurance agents, brokers, limited agents, adjusters, appraisers, and consultants.
- Develops and administers tests for entry into the field.
- Maintains permanent records on the 33,000 insurance professionals.
- Administers the Continuing Education Program.
- Provides consumers information about licensing status of a producer.
- ELDER*Info*Office (additional program)
 - The Delaware's State Health Insurance Association Program (SHIP).
 - Provides information, counseling, and assistance to people with Medicare on health insurance matters.
- Workplace Safety Program (additional program)
 - Promotes safety in the workplace and provides lower workers' compensation insurance premiums for qualifying employers conducting business within the State of Delaware.

More detailed information on the government and its finances can be found in

- **AUDITEE'S WEBSITE**
 - www.delawareinsurance.gov
- **BUDGET ACT**
 - <http://legis.delaware.gov/BillTracking>
- **DELAWARE CODE**
 - <http://delcode.delaware.gov>
 - <http://delcode.delaware.gov/title18/c003/index.shtml>
 - <http://delcode.delaware.gov/title18/c042/index.shtml>
 - <http://delcode.delaware.gov/title18/c044/index.shtml>
- **BUDGET AND ACCOUNTING MANUAL**
 - <http://www.budget.delaware.gov/accounting-manual/account-manual.shtml>
- **Delaware Life and Health Insurance Guaranty Association Financial Report, December 31, 2009 (Appendix B)**
- **Delaware Insurance Guaranty Association Financial Statements, December 31, 2009 and 2008 (Appendix C)**

C. Pension Plans

The Department of Insurance participates in the State of Delaware's Pension Plan which is a cost-sharing multiple employer plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities. More information can be obtained on the Office of Pension's website at <http://www.delawarepensions.com/>.

IV. TIME REQUIREMENTS

A. Proposal Calendar

The following is a list of key dates up to and including the date proposals are due to be submitted:

- Request for proposal issued August 13, 2010
- Pre-proposal conference August 25, 2010
- Due date for proposals September 8, 2010

B. Notification and Contract Dates

- Selected firm notified September 20, 2010
- Contract date September 30, 2010

C. Date Preliminary Audit Planning
May Commence October 11, 2010

D. Detailed Audit Plan and Programs to
AOA for approval October 27, 2010

E. Entrance Conferences, Progress Reporting, and Exit Conferences

An entrance and exit conference must be held with the department's fiscal officer and key personnel. The CONTRACTOR shall provide the auditee with a list of all information to be provided and conduct a status meeting. The CONTRACTOR must keep the auditee updated on the progress of the audit.

F. Reports

1. Draft Report - The CONTRACTOR shall provide an electronic version of the **draft report** to the Department of Insurance management for their review and approval. The Insurance Department's management should complete their review of the draft report as expeditiously as possible. During management review, the CONTRACTOR should be available to discuss the audit report and resolve any issues. The draft report must also be emailed to the AOA, Attention Kathleen A. O'Donnell, Chief Administrative Auditor (Kathleen.Odonnell@state.de.us), and Tammy L. Bailey, Audit Manager (Tammy.Bailey@state.de.us), for their review and approval along with a copy to Kimberly J. Zink, Support Services Administrator (Kimberly.Zink@state.de.us) by **December 15, 2010**.
2. Final Report – The final report (**one printed copy and an electronic version**) is due to AOA, Attention Kimberly Zink, Support Services Administrator (Kimberly.Zink@state.de.us) by **January 14, 2011**.

V. ASSISTANCE TO BE PROVIDED TO THE CONTRACTOR AND REPORT PREPARATION

A. Finance Department and Clerical Assistance

The responsible management personnel will be available during the audit to assist the firm by providing information, documentation, and explanations.

B. Report Preparation

Report preparation, editing, and printing shall be the responsibility of the CONTRACTOR. **The draft report must have a supervisory and technical quality control review before it is submitted to AOA.**

VI. PROPOSAL REQUIREMENTS

A. General Requirements

1. *Mandatory* Pre-Proposal Conference

Firms interested in submitting a proposal must attend a mandatory pre-proposal conference at 10:00 a.m. on August 25, 2010 in the Office of Auditor of Accounts' 3rd Floor Conference Room, Townsend Building, 401 Federal Street, Dover, DE 19901. Both verbal and written questions

will be accepted during the conference. Representatives of the Department of Insurance will be available at the conference to discuss their operations.

2. Inquiries

Inquiries concerning the RFP and the subject of the RFP must be made to:

Kathleen A. O'Donnell, CPA-PA, CISA, CGFM, CGAP
Chief Administrative Auditor
302-857-3919 (Kathleen.Odonnell@state.de.us)

AND

Candace M. Casto, CGFM
Senior Manager, Contracts & Administration
302-857-3910 (Candace.Casto@state.de.us)

Direct contact with State of Delaware or AOA employees other than the above-referenced contacts regarding this RFP is expressly prohibited without prior consent. Firms contacting State of Delaware or AOA employees risk elimination of their proposal from further consideration. Exceptions exist only for organizations currently doing business in the State of Delaware who require contact in the normal course of business.

3. Submission of Proposals

To be considered, all proposals must be submitted by the due date listed in Section IV, F. to AOA's third floor office, Townsend Building, Suite 1, 401 Federal Street, Dover, DE 19901, in writing and respond to the items outlined in this RFP using the following required format. AOA reserves the right to reject any non-responsive or non-conforming proposals, as well as proposals received after the specified date and time. By submitting a proposal, and in consideration of AOA's efforts and representations with respect to the review and evaluation of its proposal, the firm expressly agrees to be bound by the terms and conditions of this RFP in the event it is selected for the engagement. The following material is required to be received by the due dates listed for a firm to be considered.

B. Technical Proposal

The purpose of the Technical Proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to conduct a performance audit in conformity with the requirements of this RFP. As such, the substance of proposals will carry more weight than their form or manner of presentation. The Technical Proposal should list the particular staff to be assigned to this engagement, and specify an audit approach that will meet the RFP requirements.

THERE SHOULD BE NO DOLLAR UNITS OR TOTAL COSTS INCLUDED IN THE TECHNICAL PROPOSAL DOCUMENT.

The Technical Proposal should address all the points outlined in the RFP (excluding any cost information which should only be included in the sealed dollar cost bid). The Proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the RFP. While additional data may be presented, the following subjects, items Nos. 2 through 10, must be included in the required format. Those subjects represent the criteria against which the proposal will be evaluated.

1. Required Format - The proposer shall submit **four copies (original plus three copies)** of a sealed Technical Proposal and to include the following:

- a. Title Page

Title page showing RFP subject; RFP reference number; the firm's name; the contact's name, address, telephone number, and e-mail address; and the date of the proposal. The transmittal letter must also clearly state and justify any exceptions to the requirements of the RFP that the applicant may have taken in presenting the proposal.

- b. Table of Contents

Table of contents should clearly identify each section by page number.

- c. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes

it is best qualified to perform the engagement, and a statement that the proposal is a firm and irrevocable offer for one month after the due date of proposal.

d. Detailed Proposal

The proposal must conform to the proposal requirements of the RFP. AOA specifically reserves the right to waive any informalities or irregularities in the proposal format. The detailed proposal should follow the order set forth in Sections VI B and C of this RFP.

2. Mandatory Criteria (all criteria must be met or the proposal cannot be considered)

a. Independence

The firm should provide an affirmative statement that it is independent of the Insurance Department as defined by the U.S. Government Accountability Office's *Government Auditing Standards*.

The firm should also list and describe the firm's professional relationships involving the Insurance Department or any of its agencies for the past five years, together with a statement explaining why each such relationship does not constitute a conflict of interest relative to performing the proposed audit.

In addition, the firm shall give the Insurance Department or its agencies and AOA written notice of any professional relationships entered into during the period of this agreement.

b. License to Practice in Delaware

An affirmative statement should be included that the firm and the engagement partner and manager/supervisor in charge are currently licensed or in the process of obtaining a license as a certified public accountant to practice in the State of Delaware. The applicant must provide evidence of a valid Delaware CPA permit for all Delaware CPAs on the audit team and a business license for the firm.

3. Firm Qualifications, Experience, and Requirements

The proposer should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed, and the number and nature of the professional staff to be employed in this engagement on a full-time basis, and the number and nature of the staff to be employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements. The firm must also include a copy of the letter of comments, if applicable.

The firm shall certify that it has not been suspended or debarred from performing government audits or from other government activity. In addition, the firm shall certify that it has not been the subject of any disciplinary action or inquiry in any jurisdiction during the past three years.

The firm shall include whether it is a member of the Governmental Audit Quality Center.

The firm must certify that it shall maintain such insurance as will protect against claims under Worker's Compensation Act and from any other claims for damages for personal injury, including death, which may arise from operations under this Contract. The Contractor is an independent contractor and is not an employee of the State.

The Contractor shall, at its expense, carry insurance of minimum limits as follows:

- a. Commercial General Liability..... \$1 million per claim/
\$3 million aggregate
- b. Professional Liability.....\$1 million per claim/
\$3 million aggregate

The Contractor shall provide evidence of such insurance.

4. Partner, Supervisory and Staff Qualifications and Experience

Identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement. Indicate whether each person is registered or licensed to practice as a certified public accountant in the State of Delaware. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three years and membership in professional organizations relevant to the performance of this audit and whether or not that person, within the past three years, has been the subject of any disciplinary action or inquiry in any jurisdiction.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured.

The proposer should identify the extent to which staff to be assigned to the audit reflect the State of Delaware's commitment to Affirmative Action. Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of AOA. However, in either case, AOA retains the right to approve or reject replacements and the replacements must have substantially the same or better qualifications or experience.

Consultants and firm specialists mentioned in response to this RFP can only be changed with the express prior written permission of AOA, which retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

5. Prior Engagements With AOA

List separately all engagements within the last three years, ranked on the basis of total staff hours, for AOA by type of engagement (i.e., audit, management advisory services, other). Indicate the scope of work, date, engagement partners, total hours, the location of the firm's office from

which the engagement was performed, and the name and telephone number of the principal client contact.

6. Similar Engagements With Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum of 5) performed in the last three years that are similar to the engagement described in this RFP. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

7. Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required in Section II of this RFP.

Proposers will be required to provide the following information on their audit approach:

- a. Proposed segmentation of the engagement.
- b. Level of staff and number of hours to be assigned to each proposed segment of the engagement.

NO DOLLARS SHOULD BE INCLUDED IN THE TECHNICAL PROPOSAL

- c. Sampling methodology and the extent to which sampling is to be used in the engagement.
- d. Extent of use of auditing software in the engagement.
- e. Type and extent of analytical procedures to be used in the engagement.
- f. Approach to be taken to gain and document an understanding of the auditee's internal control structure and test related controls (including IT structure and controls). Also, discuss COSO criteria and approach to understand internal controls using these criteria.

- g. Approach to be taken in determining laws and regulations that will be subject to audit test work.
- h. Approach to be taken to manage the engagement process and ensure time and staff commitments required to meet AOA deadlines.

8. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems, and any special assistance that will be requested from the auditee.

C. Cost Proposal

The proposer shall submit **two copies (original plus one copy)** of a dollar cost bid in a separate sealed envelope marked as follows:

SEALED DOLLAR COST BID
PROPOSAL
FOR
DEPARTMENT OF INSURANCE
FOR
PROFESSIONAL AUDITING SERVICES
SEPTEMBER 8, 2010

The sealed envelope shall contain the name and address of the proposing firm and the sealed dollar bid shall include the following:

1. Total All-Inclusive Maximum Cost

The sealed dollar cost bid should contain all cost information relative to performing the audit engagement as described in this RFP. The total all-inclusive maximum cost to be bid is to contain all direct and indirect costs including all out-of-pocket expenses **for the fiscal year. The CONTRACTOR must use Appendix A to submit their cost information.**

AOA will not be responsible for expenses incurred in preparing and submitting the sealed technical proposal or the sealed dollar cost bid. Such costs should not be included in the proposal.

The first page of the sealed dollar cost bid should include the following information:

- a. Name of Firm.
 - b. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with AOA.
 - c. A Total All-Inclusive Maximum Cost for the audit period.
2. Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each

The second page of the sealed dollar cost bid should include a schedule of professional fees and expenses, presented in the format provided in the attachment (Appendix A), that supports the total all-inclusive maximum cost.

3. Out-of-Pocket Expenses Included in the Total All-Inclusive Maximum Cost and Reimbursement Rates

Out-of-pocket expenses for firm personnel (e.g., travel, lodging, and subsistence) will be reimbursed at the prevailing rates used by the State of Delaware for its employees. All estimated out-of-pocket expenses to be reimbursed must be presented on the second page of the sealed dollar cost bid in the format provided in the attachment (Appendix A). All expense reimbursements will be charged against the total all-inclusive maximum cost submitted by the firm.

In addition, a statement must be included in the sealed dollar cost bid stating the firm will accept reimbursement for travel, lodging, and subsistence at the prevailing rate used by the State of Delaware for its employees.

4. Rates for Additional Professional Services

If it should become necessary for AOA to request the auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the Agreement between AOA and the firm. Any such additional work agreed

to between AOA and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the sealed dollar cost bid.

5. Manner of Payment

Progress payments up to 90 percent will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's dollar cost bid proposal. Invoices shall cover a period of not less than a calendar month and must include the following: (1) name of auditee/engagement; (2) amount and if it's a progress or final invoice; and (3) a breakdown of staff and hours for each. Ten percent of the contract amount will be retained until the Exit Conference has been held and the final reports have been reviewed and accepted by AOA.

CONTRACTOR agrees to bill AOA only for actual work performed and out-of-pocket expenses incurred during its performance of the engagement. CONTRACTOR must submit all invoices in writing or electronic format to AOA for approval. Invoices must include the name of the auditor who performed the work, the nature of work performed, the date(s) work performed, the number of hours worked and the corresponding hourly rate, in addition to the amounts, descriptions and dates of all out-of-pocket expenses for which reimbursement is requested. If approved, AOA will forward the invoice to the auditee for payment or pay the invoices itself, depending on the type of audit.

D. Submission of Proposals

All completed sealed proposals must be delivered in person, by mail, or by carrier service (e.g., FedEx, UPS, etc.) to the following AOA personnel at AOA's third floor office, Townsend Building, Suite 1, 401 Federal Street, Dover, DE 19901. Please do not have the proposals delivered to the Division of Corporations or any other agency.

Technical Proposal

Kathleen A. O'Donnell, CPA-PA, CISA, CGFM, CGAP
Chief Administrative Auditor
302-857-3919
Kathleen.Odonnell@state.de.us

Cost Proposal

Candace M. Casto, CGFM
Senior Manager, Contracts & Administration
302-857-3910
Candace.Casto@state.de.us

Any proposal submitted by mail shall be sent by either certified or registered mail to AOA's third floor office, Townsend Building, Suite 1, 401 Federal Street, Dover, DE 19901. Any proposal received after the above date shall not be considered and shall be returned unopened. The proposing firm bears the risk of delays in delivery.

E. Modifications to Proposals

Any changes, amendments, or modifications to the proposal must be made in writing, submitted in the same manner as the original response and conspicuously labeled as a change, amendment, or modification to a previously submitted proposal. Changes, amendments, or modifications to proposals shall not be accepted or considered after the time and date specified as the deadline for submission of proposals.

VII. EVALUATION PROCEDURES

A. Evaluation Committee

An Evaluation Committee selected by AOA, which may consist of AOA and auditee personnel, will evaluate proposals submitted.

The Evaluation Committee may negotiate with one or more of the qualified firms during the same period and may, at its sole discretion, terminate negotiations with any and all firms at any time.

B. Review of Proposals

Proposals that do not meet or comply with the instructions of this RFP may be considered non-conforming and deemed non-responsive and subject to disqualification at the sole discretion of the Evaluation Committee.

The Evaluation Committee will use a point formula during the review process to score proposals. All assignments of points shall be at the sole discretion of the Evaluation Committee. Each member of the Evaluation Committee will first score each technical proposal by each of the criteria described in Section VII C

below. The full Evaluation Committee will then convene to review and discuss these evaluations and to combine the individual scores to arrive at an average technical score for each firm. At this point, firms with an unacceptably low technical score will be eliminated from further consideration.

After the composite technical score for each firm has been established, the sealed dollar cost bid will be opened and additional points will be added to the technical score based on the cost bid. The maximum score for cost will be assigned to the firm offering the lowest total all-inclusive maximum cost. Appropriate fractional scores will be assigned to other proposers.

AOA reserves the right to retain all proposals submitted and use any idea in a proposal regardless of whether that proposal is selected and regardless of any statement of contention by a proposer to the contrary.

C. Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Only firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and cost. The following represent the principal selection criteria that will be considered during the evaluation process.

1. Mandatory Elements

All firms are required to meet these elements. No points assigned.

- a. The audit firm is independent and licensed to practice in Delaware. Please provide a copy of your firm's State of Delaware Occupational License (issued by the Division of Revenue); a copy of the firm's State of Delaware Board of Accountancy permit; and copies of the State of Delaware Board of Accountancy Permit of the engagement partner and the manager/supervisor in charge.
- b. The firm has no conflict of interest with regard to any other work performed by the firm for the State of Delaware.
- c. The firm meets the continuing professional education standards of the *Government Auditing Standards*.
- d. The firm adheres to the instructions in this RFP on preparing and submitting the proposal.

- e. The firm has an internal quality control system in place and has had an external quality control review performed within the last three years or is currently under contract to have one performed. Please submit a copy of the firm's last external quality control review report (including the letter of comments, if applicable). The firm has a record of quality audit work.
 - f. The firm has the following minimum limits in insurance:
 - (1) Commercial General Liability..... \$1 million per claim/
\$3 million aggregate
 - (2) Professional Liability..... \$1 million per claim/
\$3 million aggregate
 - g. The firm has not been suspended or debarred from performing government audits or from other governmental activity.
 - h. The firm has not been the subject of any disciplinary action or inquiry during the past three years.
2. Technical Qualifications: (Maximum Points - 90)
- a. Expertise and Experience
 - (1) The firm's past experience and performance on comparable government engagements.
 - (2) The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation.
 - b. Audit Approach
 - (1) Adequacy of proposed staffing plan for various segments of the engagement
 - (2) Compliance with *Government Auditing Standards*

3. Cost (Maximum Points -10)

COST WILL NOT BE THE PRIMARY FACTOR IN THE SELECTION
OF AN AUDIT FIRM

Cost scores will be based on the number of proposals accepted and reviewed. The maximum score for cost will be assigned to the firm offering the lowest total all-inclusive maximum cost. Appropriate scores will be assigned to other proposers (e.g., if there are 10 proposals accepted and reviewed, then the firm with the lowest all-inclusive cost will be assigned 10 points, and the next lowest would be assigned 9 points, etc.). Appropriate fractional scores will be assigned to other proposers.

D. Reservation of Rights

The Evaluation Committee reserves the right to:

1. Select for contract or for negotiations a proposal other than that with the lowest costs.
2. Reject any and all proposals or portions of the proposals received in response to this RFP or to make no award or issue a new RFP.
3. Waive or modify any information, irregularity, or inconsistency in proposals received.
4. Request modification to proposal from any or all contractors during the review and negotiation.
5. Negotiate any aspect of the proposal with any firm and negotiate with more than one firm at the same time.

The Evaluation Committee reserves the right to reject any proposal from a firm who:

1. Has been convicted for commission of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or subcontract, or in the performance of the contract or subcontract;
2. Has been convicted under State or Federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen

property, or other offenses indicating lack of business integrity or business honesty that currently and seriously affects responsibility as a State contractor;

3. Has been convicted or has had a civil judgment entered for a violation under State or Federal antitrust statutes;
4. Has violated contract provisions such as:
 - a. Knowing failure without good cause to perform in accordance with the specifications or within the time limit provided in the contract;
 - or
 - b. Failure to perform or unsatisfactory performance in accordance with terms of one or more contracts;
5. Has violated ethical standards set out in law or regulation;
6. Any other cause listed in regulations of the State of Delaware determined to be serious and compelling as to affect responsibility as a State contractor, including debarment by another governmental entity for cause listed in the regulations.

E. Oral Presentations

During the evaluation process, the Evaluation Committee may, at its discretion, request any one or all firms to make oral presentations. Such presentations will provide firms with an opportunity to answer any questions the Evaluation Committee may have on a firm's proposal. Not all firms may be asked to make such oral presentations. All costs associated with participation in oral presentations conducted for the State of Delaware are the firm's responsibility.

F. Confidentiality of Documents

All documents submitted as part of the firm's proposal will be deemed confidential during the evaluation process. Proposals will not be available for review by anyone other than AOA and the Evaluation Committee or its designated agents. There shall be no disclosure of any firm's information to a competing firm prior to award of the contract.

The State of Delaware is a public agency as defined by state law, and as such, it is subject to the Delaware Freedom of Information Act, 29 *Del. C.* Ch. 100. Under the law, all the State of Delaware's records are public records (unless otherwise

declared by law to be confidential) and are subject to inspection and copying by any person. Vendor(s) are advised that once a proposal is received by the State of Delaware and a decision on contract award is made, its contents will become public record and nothing contained in the proposal will be deemed to be confidential except proprietary information.

Firms shall not include any information in their proposal that is proprietary in nature or that they would not want to be released to the public. Proposals must contain sufficient information to be evaluated and a contract written without reference to any proprietary information. If a firm feels that it cannot submit its proposal without including proprietary information, it must adhere to the following procedure or their proposal may be deemed unresponsive and will not be recommended for selection. Firm(s) must submit such information in a separate, sealed envelope labeled "Proprietary Information" with the RFP number. The envelope must contain a letter from the firm's legal counsel describing the documents in the envelope, representing in good faith that the information in each document is not "public record" as defined by 29 *Del. C.* § 10002(d), and briefly stating the reasons that each document meets the said definitions.

G. Final Selection

The AOA will select a firm based upon the recommendation of the Evaluation Committee. Neither AOA nor the Evaluation Committee nor the State of Delaware has any obligation to provide any firm with information or documentation related to the selection process and its decision with respect to this RFP beyond that which is described and required in this RFP or required by applicable law.

It is anticipated that a firm will be selected by September 20, 2010. Following notification of the firm selected, it is expected a contract will be executed between both parties by September 30, 2010.

H. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this RFP unless clearly and specifically noted in the proposal submitted and confirmed in the contract between AOA and the firm selected.

AOA reserves the right without prejudice to reject any or all proposals.

VIII. CONTRACT CONDITIONS

The firm awarded the contract will be required to enter into a written agreement with AOA. AOA reserves the right to incorporate standard State of Delaware contractual provisions into any contract negotiated as a result of a proposal submitted in response to an RFP. Any proposed modifications to the terms and conditions of the standard contract are subject to review and approval by AOA. The firm shall be referred to as "CONTRACTOR" in the agreement.

The selected firm will be expected to enter negotiations with AOA, which will result in a formal agreement between the parties. Procurement will be in accordance with the subsequent contracted agreement. This RFP and the selected firm's response to this RFP will be incorporated as part of any formal agreement.

If the firm to whom the contract is awarded fails to enter in the agreement as herein provided, the award will be annulled and an award may be made to another firm. Such firm shall fulfill every stipulation embraced therein as if they were the party to whom the first award was made.

The selected firm under this RFP shall be subject to contractual provisions, in a form substantially similar to the following, as well as those agreed to by the parties and not specifically described herein.

A. Term

The term of the contract between the successful firm and AOA shall be determined by AOA with consideration of the agency's request. The agreement may be terminated by AOA at any time by giving written notice to the CONTRACTOR of such termination. Upon such termination, the CONTRACTOR will be paid for the hours of work actually completed.

In the event the successful firm materially breaches any obligation under this Agreement, the CONTRACTOR shall not be relieved of any liability to the State of Delaware for damages suffered by it by virtue of any such breach. AOA may withhold any payments to CONTRACTOR for the purpose of set off for such damages.

B. Compensation

AOA agrees to pay CONTRACTOR compensation calculated solely on the amount of audit work performed by firm's staff, based on actual hours billed and hourly rates as set forth in Appendix A herein, as well as approved out-of-pocket expenses.

CONTRACTOR agrees to bill AOA only for actual work performed and out-of-pocket expenses incurred during its performance of the engagement. CONTRACTOR must submit all invoices in writing or electronic format to AOA for approval. Invoices must include the name of the auditor who performed the work, the nature of work performed, the date(s) work performed, the number of hours worked and the corresponding hourly rate, in addition to the amounts, descriptions and dates of all out-of-pocket expenses for which reimbursement is requested. If approved, AOA will forward the invoice to the auditee for payment or pay the invoices itself, depending on the type of audit.

C. Non-Appropriation

In the event the General Assembly fails to appropriate the specific funds necessary to enter into or continue the contractual agreement, in whole or in part, the agreement shall be terminated, as to any obligation of the State of Delaware requiring the expenditure of money for which no specific appropriation is available at the end of the last fiscal year for which no appropriation is available or upon the exhaustion of funds.

D. Notice

Any notice to AOA required under this Agreement shall be in writing and sent by regular mail and registered mail to:

Attention: R. Thomas Wagner, Jr.
Auditor of Accounts
Townsend Building, Suite 1
401 Federal Street
Dover, DE 19901

E. Formal Contract and Purchase Order

The successful firm shall promptly execute an agreement incorporating the terms of this RFP within twenty days after the award of the contract. No bidder is to begin any service prior to receipt of a State of Delaware purchase order signed by two authorized representatives of the agency requesting service, properly processed through the State of Delaware Accounting Office and the (Agency). The purchase order shall serve as the authorization to proceed in accordance with the bid specifications and the special instructions, once it is received by the successful firm.

F. Indemnification

By submitting a proposal, the proposing firm agrees that in the event it is awarded a contract, it will indemnify and otherwise hold harmless the State of Delaware, its agents and employees from any and all liability, suits, actions, or claims, together with all costs, expenses for attorney's fees, arising out of the firm's, its agents and employees' performance of work or services in connection with the contract, regardless of whether such suits, actions, claims or liabilities are based upon acts or failures to act attributable, in whole or in part, to the State of Delaware, its employees or agents.

G. Compliance

In performance of the contract the firm is required to comply with all applicable federal, state and local laws, regulations, policies, guidelines and requirements of the jurisdiction in which the Agreement is performed, as well as all applicable professional conduct rules and guidelines. The cost of permits and other relevant costs required in the performance of the contract shall be borne by the successful firm. The firm shall be properly licensed and authorized to transact business in the State of Delaware as provided in Section 2502 of Title 30 of the Delaware Code and other applicable statutes and regulations.

H. Insurance

The firm recognizes that it is operating as an independent contractor (and not an employee of the State of Delaware) and that it is liable for any and all losses, penalties, damages, expenses, attorney's fees, judgments, and/or settlements incurred by reason of injury to or death of any and all persons, or injury to any and all property, of any nature, arising out of the contractor's negligent performance under this contract, and particularly without limiting the foregoing, caused by, resulting from, or arising out of any act of omission on the part of the contractor in their negligent performance under this contract.

The firm must certify that it shall maintain such insurance as will protect against claims under Worker's Compensation Act and from any other claims for damages for personal injury, including death, which may arise from operations under the Agreement. The firm is an independent contractor and is not an employee of the State of Delaware.

The firm shall, at its expense, carry insurance of minimum limits as follows:

Commercial General Liability.....	\$1 million per claim/ \$3 million aggregate
Professional Liability.....	\$1 million per claim/ \$3 million aggregate

The firm shall provide a certificate of insurance as proof that the firm has the required insurance.

I. Non-Discrimination

In performing the services subject to this RFP, the firm agrees that it will not discriminate against any employee or applicant for employment because of race, creed, age, marital status, religion, color, sex, genetic information, national origin, or disability. The successful firm shall comply with all federal and state laws, regulations and policies pertaining to the prevention of discriminatory employment practice. Failure to perform under this provision constitutes a material breach of contract.

J. Covenant Against Contingent Fees

The successful firm warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement of understanding for a commission or percentage, brokerage or contingent fee excepting bona-fide employees, bona-fide established commercial or selling agencies maintained by the bidder for the purpose of securing business. For breach or violation of this warranty, AOA shall have the right to annul the contract without liability or at its discretion to deduct from the contract cost or otherwise recover the full amount of such commission, percentage, brokerage or contingent fee.

K. Contract Documents

The RFP, the Purchase Order and the executed Agreement between AOA and the successful firm shall constitute the Contract between AOA and the firm. In the event there is any discrepancy between any of these contract documents, the following order of documents governs so that the former prevails over the latter: Agreement, Purchase Order, and RFP. No other documents shall be considered. These documents contain the entire agreement between AOA and the firm. Firm agrees to be bound by the terms of this RFP pending final execution of the Agreement by the parties.

L. Applicable Law

The laws of the State of Delaware shall apply, except where Federal law has precedence. The successful firm consents to exclusive jurisdiction in the State of Delaware and agrees that any litigation relating to this Agreement shall be filed and litigated in a court in the State of Delaware.

M. Scope of Agreement

If the scope of any provision of this Agreement is too broad in any respect whatsoever to permit enforcement to its full extent, then such provision shall be enforced to the maximum extent permitted by law, and the parties hereto consent and agree that such scope may be judicially modified accordingly and that the whole of such provisions of the Agreement shall not thereby fail, but the scope of such provisions shall be curtailed only to the extent necessary to conform to the law.

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES

INSURANCE DEPARTMENT FINANCIAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partners				
Managers				
Supervisory staff				
Staff				
Other (Specify) _____				
Sub Total				
Out-of-pocket expenses				
Meals and lodging				
Transportation				
Other (Specify) _____				
Total All-Inclusive Maximum Cost for the Fiscal Year				

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum cost.

APPENDIX A

SCHEDULE OF PROFESSIONAL FEES AND EXPENSES
FOR THE AUDIT OF THE DEPARTMENT OF XYZ
FOR FISCAL YEARS 20__ - 20__

	<u>Hours</u>	<u>Standard Hourly Rates</u>	<u>Quoted Hourly Rates</u>	<u>Total</u>
Partner	10	\$ 195	\$ 180	\$ 1,800
Manager	15	\$ 175	\$ 150	\$ 2,250
Supervisor	63	\$ 140	\$ 125	\$ 7,875
Senior	-	\$ -	\$ -	\$ -
Staff	49	\$ 87	\$ 87	\$ 4,263
Other (Specify)		\$ -	\$ -	\$ -
Sub Total	<u>137</u>			<u>\$ 16,188</u>
Out-of-pocket expenses				
Meals and lodging				\$ 665
Transportation				
Other (Specify) _____				\$ 120
Total all-inclusive maximum cost for Fiscal Years 20__ - 20__ Audit				<u><u>\$ 16,973</u></u>

Note: The rate quoted should not be presented as a general percentage of the standard hourly rate or as a gross deduction from the total all-inclusive maximum cost.

We will accept the State of Delaware's prevailing rates for travel reimbursement.

**DELAWARE LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

FINANCIAL REPORT

DECEMBER 31, 2009

Cunningham, Porter and Phillips



**Cunningham,
Porter and Phillips**

Certified Public Accountants

SUITE 200 · 1077 RYDAL RD. · RYDAL, PA 19046-1793 · TEL: (215) 572-7400 · FAX (215) 572-7448

Independent Auditors' Report

Board of Directors
Delaware Life and Health Insurance Guaranty Association

We have audited the accompanying statement of assets and liabilities – modified cash basis of the Delaware Life and Health Insurance Guaranty Association as of December 31, 2009, and the related statement of revenues collected, expenses paid and changes in fund balances – modified cash basis for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Association's policy is to prepare its financial statements on the modified cash basis of accounting; consequently, certain revenue and related assets are recognized when received rather than earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, they are not intended to be presented in conformity with generally accepted accounting principles.

In our opinion, such financial statements present fairly, in all material respects, the assets and liabilities of the Delaware Life and Health Insurance Guaranty Association as of December 31, 2009, and the results of its operations for the year then ended in conformity with the basis of accounting referred to in the preceding paragraph.

Cunningham, Porter & Phillips

CUNNINGHAM, PORTER AND PHILLIPS
Certified Public Accountants

March 28, 2010

APPENDIX B

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

Financial Statements for the
Year Ended December 31, 2009

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Cunningham, Porter and Phillips

APPENDIX B

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF ASSETS AND LIABILITIES - MODIFIED CASH BASIS

DECEMBER 31, 2009

	<u>ADMINISTRATIVE FUND CLASS A</u>	<u>PROGRAM FUND CLASS B</u>	<u>PROGRAM FUND CLASS C</u>	<u>TOTAL FUNDS</u>
<u>ASSETS</u>				
Cash	\$ -	\$ -	\$ 16,967	\$ 16,967
Marketable Securities	-	-	4,988,061	4,988,061
Security Deposit	<u>3,856</u>	<u>-</u>	<u>-</u>	<u>3,856</u>
<u>TOTAL ASSETS</u>	<u>\$ 3,856</u>	<u>\$ -</u>	<u>\$ 5,005,028</u>	<u>\$ 5,008,884</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Advances Between Funds	<u>\$ (58,618)</u>	<u>\$ (5,742)</u>	<u>\$ 64,360</u>	<u>\$ -</u>
<u>TOTAL LIABILITIES</u>	<u>(58,618)</u>	<u>(5,742)</u>	<u>64,360</u>	<u>-</u>
<u>FUND EQUITY</u>	<u>62,474</u>	<u>5,742</u>	<u>4,940,668</u>	<u>5,008,884</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 3,856</u>	<u>\$ -</u>	<u>\$ 5,005,028</u>	<u>\$ 5,008,884</u>

The accompanying notes are an integral part of the financial statements

APPENDIX B

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF REVENUES COLLECTED, EXPENSES PAID AND
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS

FOR THE YEAR ENDED DECEMBER 31, 2009

	ADMINISTRATIVE FUND CLASS A	PROGRAM FUND CLASS B	PROGRAM FUND CLASS C	TOTAL FUNDS
<u>REVENUES</u>				
Premium Income	\$ -	\$ -	\$ 1,755	\$ 1,755
Investment Income	-	-	109,029	109,029
Recoveries	-	-	1,012,224	1,012,224
Reallocation	110,000	450,000	(560,000)	-
<u>TOTAL REVENUES</u>	<u>110,000</u>	<u>450,000</u>	<u>563,008</u>	<u>1,123,008</u>
<u>EXPENSES</u>				
Claims Paid	-	-	162,182	162,182
Insolvency Expenses	-	-	148,990	148,990
Assessments Advanced	-	450,000	-	450,000
Administrative Services	15,666	-	29,096	44,762
Management Fees	38,390	-	71,296	109,686
Office Supplies and Expenses	1,147	-	2,130	3,277
NOLHGA Dues	37,206	-	-	37,206
Rent	8,572	-	15,919	24,491
Legal	1,785	-	3,314	5,099
Bank Charges	-	-	10,197	10,197
Meeting Expense	4,602	-	8,546	13,148
Insurance	1,135	-	2,109	3,244
Telephone	610	-	1,133	1,743
Accounting	2,232	-	4,146	6,378
Postage	758	-	1,407	2,165
Computer Expense	2,594	-	4,818	7,412
Travel	4,198	-	7,796	11,994
Subscriptions	685	-	1,271	1,956
Assessment Survey	-	-	4,500	4,500
<u>TOTAL EXPENSES</u>	<u>119,580</u>	<u>450,000</u>	<u>478,850</u>	<u>1,048,430</u>
<u>EXCESS (DEFICIT) REVENUE OVER EXPENSES</u>	<u>(9,580)</u>	<u>-</u>	<u>84,158</u>	<u>74,578</u>
<u>FUND BALANCES - BEGINNING</u>	<u>72,055</u>	<u>5,742</u>	<u>4,856,510</u>	<u>4,934,307</u>
<u>FUND BALANCES - ENDING</u>	<u>\$ 62,475</u>	<u>\$ 5,742</u>	<u>\$ 4,940,668</u>	<u>\$ 5,008,885</u>

The accompanying notes are an integral part of the financial statements

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – PURPOSE OF THE ASSOCIATION

The purpose of the Association is to protect policy owners, insureds, beneficiaries, annuitants, payees and assignees of life insurance policies, health insurance policies, annuity contracts and supplemental contracts, subject to certain limitations, against failure in the performance on contractual obligations due to the impairment or insolvency of the insurer issuing such policies or contracts.

The Association derives its funding from the assessment of member insurers. Class A and B assessments are limited to once a year and are restricted by law as to the maximum amount that can be assessed. Delaware law provides for three classes of assessment. Class A assessments are made for the purpose of meeting administrative costs and other general expenses not related to a particular impaired or insolvent insurer. Class B assessments are made annually to partially subsidize the oversight activities of the Insurance Commissioner of the State of Delaware. Class C assessments are made to the extent necessary to carry out the powers and duties of the Association with regard to an impaired or insolvent domestic, foreign or alien insurer.

In 2002, the Delaware legislature amended Title 18, Chapter 44, relating to the Delaware Life and Health Insurance Guaranty Association Act. The Governor signed this legislation and the changes became effective June 25, 2002. The amendments were made to conform the Delaware Life and Health Insurance Guaranty Association Act to the current National Association of Insurance Commissioners' Model Act.

On January 26, 2010, the Governor of Delaware signed House Bill 202, which amended Title 18, Chapter 44 with the intent of implementing changes to the Delaware Life and Health Guaranty Association Act. The bill increased certain protections for Delaware policyholders in the event of the insolvency of their insurance company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Basis of Accounting

The Association presents its financial statements on the modified cash basis of accounting. Under this basis revenue is recognized when received rather than when assessed and expenses are recognized when paid rather than when the obligation is incurred.

Therefore, receivables and payables (with the exception of advances from other funds), and accrued income and expenses which may be material in amount are not reflected and these statements are not intended to present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Amortization of Bond Premium

The Association values its investments at amortized cost. The amortization for 2009 was \$7,341.

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – REINSURANCE CLAIMS

Delaware Life and Health Insurance Guaranty Association and Tara Life Insurance Company of America entered into an agreement on January 14, 1984, whereby the Association agreed to reinsure certain policies of Tara that were written before January 1, 1984. The agreement will continue so long as any policy indicated in the reinsurance schedule is in effect.

Under an agreement entered into with the American Accident Reinsurance Group, the Association is reinsured for any losses under the Tara contract incurred and paid on or after September 1, 1986. The agreement also provided for the Association to be reimbursed \$4.9 million as a partial reimbursement for losses paid to Tara policyholders.

NOTE 4 – SIGNIFICANT EVENTS

On November 27, 1991, the Board of Directors authorized the Association to enter into an amended and restated enhancement agreement in connection with the rehabilitation of Executive Life Insurance Company. This agreement was subsequently modified several times during that year. On October 28, 1992, the Board of Directors approved execution of the Closing Facilitation Agreement. The plan provided for annual payments to be made starting in 1992 and continuing through 1998. Partial payments were paid for the years 1998 through 2009. However, some liabilities continued beyond 2009. The Association has an annual option to defease the bulk of the continuing liabilities in 2010 and subsequent years. The Association also furnished a non-negotiable Secured Promissory Capital Note as part of the agreements.

On May 22, 2009, the Board authorized the reallocation of \$560,000 investment income in the Class C account to the Class A and B accounts in the amount of \$110,000 and \$450,000, respectively.

NOTE 5 – ESTIMATED FUTURE GUARANTY ASSOCIATION COSTS

The following represents estimated future costs of the Association as determined by Management:

Executive Life Insurance Company	\$ 1,496,000
Consumers United Insurance Company	20,000
Lincoln Memorial Life Insurance Company	45,000
Life and Health Insurance Co. of America	<u>15,000</u>
	<u>\$ 1,576,000</u>

There are several other companies that are currently in receivership that may trigger Association liability in the foreseeable future, these include:

Executive Life Insurance Company of New York
Penn Treaty Insurance Companies
Shenandoah Life Insurance Company
Standard Life Insurance Company of Indiana.

There is no sufficient information available at the present time to quantify the Association's potential liability on these estates.

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – OFFICE EXPENSES

The Association shares offices with the Delaware Insurance Guaranty Association (DIGA). An agreement exists between the two Associations whereby the Delaware Life and Health Insurance Guaranty Association reimburses DIGA for its share of the office expenses. The percentage of reimbursement is modified from time to time.

NOTE 7 – NOLHGA FEES

The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) assesses member guaranty associations for expenditures incurred on the members' behalf for multi-state insolvencies. NOLHGA acts as an intermediary for its members in arranging for the services and subsequently billing those members benefiting from the services.

NOTE 8 – CLAIMS PAID, INSOLVENCY EXPENSES

The following is a breakdown of 2009 expenses by insolvency:

	Net Claims Paid	Direct Insolvency Expenses	Other Insolvency Expenses
American Chambers Life Insurance Co.	\$	\$ 429	\$ 746
American Integrity		21	0
Centennial Life Insurance Company		263	340
Coastal States		884	756
Confederation Life		104	194
Conseco		604	1,430
Consumers United		10,886	12,786
Diamond Benefit Life		52	97
Executive Life – New York		96,729	101,488
Executive Life	159,019	7,441	6,318
Fidelity Bankers		260	281
Fidelity Mutual		52	97
First National Life		104	102
Guarantee Security Life		5	0
Kentucky Central Life		394	398
Legion Insurance Co.		52	97
Life and Health Ins. Co. of America	550	488	566
Lincoln Memorial Life	2,630	8,167	9,993
London Pacific		10	97
Monarch Life		260	294
National Health Insurance Co.		2	0
National Heritage Life		12,713	8,543
Penn Treaty		6,064	5,788
Reliance Insurance Co.		417	546
Shenandoah Life		1,040	589
Standard Life of Indiana		883	625
States General		156	192
Summit National Life	(17)	0	0
Tara Life Insurance Co.		260	281
Thunor Trust Companies		251	335
	<u>\$ 162,182</u>	<u>\$ 148,990</u>	<u>\$ 152,981</u>

APPENDIX B

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CLASS C ASSESSMENTS

December 14, 1992 – This assessment was comprised of:

	<u>Authorized</u>	<u>Called</u>
Executive Life	\$ 1,500,000	\$ 900,000
Inter-American Life	500,000	500,000
Guarantee Security Life	125,000	125,000
Mutual Benefit Life	<u>125,000</u>	<u>125,000</u>
	<u>\$ 2,250,000</u>	<u>\$ 1,650,000</u>

December 27, 1993 – This assessment was comprised of:

	<u>Authorized</u>	<u>Called</u>
Executive Life	\$ 2,000,000	\$ 1,000,000
Consumers United	2,000,000	2,000,000
Mutual Security	150,000	150,000
New Jersey Life	145,000	145,000
Guarantee Security Life	100,000	100,000
Pacific Security	45,000	45,000
American Integrity	30,000	30,000
Diamond Benefits Life	<u>15,000</u>	<u>15,000</u>
	<u>\$ 4,485,000</u>	<u>\$ 3,485,000</u>

November 2, 1994 – This assessment was comprised of:

	<u>Authorized and Called</u>
Consumers United	\$ 1,700,000
Executive Life	1,300,000
Summit National	500,000
Guarantee Security Life	230,000
Pilgrim Life	27,000
American Integrity	20,000
Old Colony Life	<u>10,500</u>
	<u>\$ 3,787,500</u>

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CLASS C ASSESSMENTS – Continued

October 24, 1995 – This assessment was comprised of:

	<u>Authorized and Called</u>
Executive Life	\$ 2,122,000
Corporate Life	355,000
Guarantee Security Life	200,000
Investment Life	2,500
Kentucky Central	<u>90,000</u>
	<u>\$ 2,769,500</u>

December 1, 1995 – This assessment was comprised of:

	<u>Authorized and Called</u>
National Heritage Life	<u>\$ 5,200,000</u>

September 23, 1996 – This assessment was comprised of:

	<u>Authorized</u>	<u>Called</u>	<u>Rescinded</u>
Coastal States Life	\$ 90,000	\$ 90,000	\$ -
Guaranty Security Life	132,000	132,000	-
National Heritage Life (Madison National Assumption)	550,000	550,000	-
National Heritage Life (Metropolitan Life Assumption)	<u>8,250,000</u>	<u>5,000,000</u>	<u>3,250,000</u>
	<u>\$ 9,022,000</u>	<u>\$ 5,772,000</u>	<u>\$ 3,250,000</u>

October 20, 1997 – This assessment was comprised of:

	<u>Authorized and Called</u>
National Heritage Life	\$ 3,000,000
Guarantee Security Life	<u>50,000</u>
	<u>\$ 3,050,000</u>

September 22, 1998 – This assessment was comprised of:

	<u>Authorized and Called</u>
National Heritage Life	\$ 500,000
Centennial Life	200,000
First National	10,000
Confederation Life	<u>25,000</u>
	<u>\$ 735,000</u>

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CLASS C ASSESSMENTS – Continued

November 16, 1999 – This assessment was comprised of:

	<u>Authorized and Called</u>
Centennial Life Insurance Co.	\$ 175,000
First National Life Insurance Co. of America	\$ 100,000

NOTE 10 – TAX STATUS

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c) (6) and those taxes levied by Delaware or its subdivisions except taxes levied on real property.

NOTE 11 – LINE OF CREDIT

During 1995, the Association entered into an agreement with Wilmington Trust Company whereby, subject to certain terms and covenants, the Association has available for its use a \$1.5 million line of credit. As of December 31, 2009, there were no amounts outstanding on the line.

NOTE 12 – REASSESSMENT CREDITS

During 1998, the Association reassessed most member companies using new data obtained from NOLHGA. Those companies whose assessments were reduced were given a credit that could be applied against future Class C Assessments. At December 31, 1999, the remaining unused reassessment credits totaled \$755,378.

NOTE 13 – LEASE OBLIGATIONS

The Association shares rent expenses with Delaware Insurance Guaranty Association under a lease expiring April 30, 2013.

The Association's share of minimum payments required under the lease for the next four years is:

<u>Year</u>	<u>Amount</u>
2010	22,938
2011	23,631
2012	24,340
2013	8,193

DELAWARE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATIONNOTES TO FINANCIAL STATEMENTSNOTE 15- MARKETABLE SECURITIES

Marketable securities at December 31, 2009, consist of the following:

	<u>Book Value</u>	<u>Market Value</u>	<u>Cost</u>
Bonds and Notes			
US Government Notes	\$ 349,899	\$ 350,527	\$ 349,243
Government Agency Bonds and Notes	3,702,596	3,705,283	3,699,580
Corporate Obligations	<u>650,351</u>	<u>654,668</u>	<u>653,714</u>
Total Bonds and Notes	4,702,846	4,710,478	4,702,537
Short-Term Investments	<u>285,215</u>	<u>284,991</u>	<u>284,992</u>
Total	<u>\$ 4,988,061</u>	<u>\$ 4,995,469</u>	<u>\$ 4,987,529</u>

**DELAWARE INSURANCE
GUARANTY ASSOCIATION**

Financial Statements

December 31, 2009 and 2008

DELAWARE INSURANCE GUARANTY ASSOCIATION
December 31, 2009 and 2008

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Independent Auditors' Report

The Board of Directors
Delaware Insurance Guaranty Association
Newark, Delaware

We have audited the accompanying statements of financial position – modified cash basis of the Delaware Insurance Guaranty Association (Association) as of December 31, 2009 and 2008, and the related statements of activities – modified cash basis, statements of cash flows – modified cash basis and changes in net assets – modified cash basis for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the Association prepares its financial statements in conformity with accounting practices recommended by the Accounting Issues Committee of the National Conference on Insurance Guaranty Funds, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Insurance Guaranty Association as of December 31, 2009 and 2008, and the results of its operations, its cash flows, and its changes in net assets for the years then ended on a basis of accounting described in Note 2.

Kreischer Miller

Horsham, Pennsylvania
March 12, 2010

DELAWARE INSURANCE GUARANTY ASSOCIATION**Statements of Financial Position - Modified Cash Basis
December 31, 2009 and 2008**

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 124,404	\$ 324,038
Investments	19,634,961	19,213,163
Total assets	<u>\$ 19,759,365</u>	<u>\$ 19,537,201</u>
LIABILITIES AND NET ASSETS		
Claims and claims expense liabilities	\$ 10,174,127	\$ 10,596,308
Net assets	<u>9,585,238</u>	<u>8,940,893</u>
Total liabilities and net assets	<u>\$ 19,759,365</u>	<u>\$ 19,537,201</u>

See accompanying notes to financial statements.

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Statements of Activities - Modified Cash Basis
Years Ended December 31, 2009 and 2008**

	2009	2008
Revenues:		
Recoupments from insolvent insurers' estates	\$ 1,295,555	\$ 5,019,266
Member assessments	506,350	504,400
Investment income	355,137	535,065
	<u>2,157,042</u>	<u>6,058,731</u>
Expenses:		
Claims paid, net of subrogation	736,711	621,104
Claims expense paid	146,364	235,982
BERG assessment expense	450,000	450,000
Administrative and general expense	607,272	586,246
Premium refunded (received)	(5,469)	671
	<u>1,934,878</u>	<u>1,894,003</u>
Revenues in excess of expenses	<u>\$ 222,164</u>	<u>\$ 4,164,728</u>

See accompanying notes to financial statements.

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Statements of Cash Flows - Modified Cash Basis
Years Ended December 31, 2009 and 2008**

	2009	2008
Increase in net assets	\$ 222,164	\$ 4,164,728
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized investment (gains) losses	12,600	(86,013)
Impairment loss on investments	-	212,938
Unrealized investment (gains) losses	95,470	(33,607)
Decrease in assessment receivable	-	1,950
Net cash provided by operating activities	330,234	4,259,996
Cash flows from investing activities:		
Purchase of investments	(18,961,423)	(15,311,787)
Proceeds from sale of investments	18,431,553	11,153,000
Net cash used in investing activities	(529,870)	(4,158,787)
Net increase (decrease) in cash and cash equivalents	(199,636)	101,209
Cash and cash equivalents, beginning of year	324,038	222,829
Cash and cash equivalents, end of year	\$ 124,402	\$ 324,038
Supplemental disclosure of noncash operating activities:		
Increase (decrease) in claims and claims expense liabilities	\$ (422,181)	\$ 1,058,532

See accompanying notes to financial statements.

APPENDIX C

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Statements of Changes in Net Assets - Modified Cash Basis
Years Ended December 31, 2009 and 2008**

	2009	2008
Balance, beginning of year	\$ 8,940,893	\$ 5,834,697
Adjustment of estimated liabilities for claims and claims expense	422,181	(1,058,532)
Revenues in excess of expenses	222,164	4,164,728
Balance, end of year	\$ 9,585,238	\$ 8,940,893

See accompanying notes to financial statements.

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Notes to Financial Statements - Modified Cash Basis
December 31, 2009 and 2008**

(1) Nature of Business

The Delaware Insurance Guaranty Association (the Association) was created on May 20, 1970 by "The Delaware Insurance Guaranty Association Act" to provide a means for the payment of covered claims under certain property and casualty insurance policies, and to avoid financial loss to claimants or policyholders as a result of the insolvency of any insurance company which was licensed to write business and was engaged in writing business within the state of Delaware.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented in conformity with accounting practices recommended by the Accounting Issues Committee of the National Conference on Insurance Guaranty Funds which differ in certain respects from accounting principles generally accepted in the United States of America. The principal differences include the following:

- The Association's financial statements are presented on the modified cash basis.
- Liabilities for unpaid claims and unpaid claims adjustment expenses are established by management based upon reviews of open claim files obtained from insolvent insurers without provisions for claims incurred but not reported. Changes in such liabilities are charged directly to net assets.

Accounting Standards Codification

Financial Accounting Standards Board (FASB) Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, is incorporated in the Association's December 31, 2009 financial statements. The *Accounting Standards Codification* (ASC) reorganizes the accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Throughout the year, the Association maintained account balances at financial institutions in excess of federally insured limits.

Cash and cash equivalents include managed cash funds of \$156,489 and \$413,973 at December 31, 2009 and 2008, respectively.

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Investments

Excess funds are invested in accordance with investment guidelines adopted by the Board of Directors. Investments maintained by the Association's investment custodian consist of U.S. Government obligations, Federal agency obligations, corporate bonds, commercial paper and an equity security.

The Association accounts for its investments in accordance with ASC 958-320, *Investments - Debt and Equity Securities* (formerly SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*). This statement requires not-for-profit organizations to record investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in the statement of financial position. It also requires all investment income, including interest, dividends, realized gains on sales of investments and unrealized gains on investments held, to be reported in the statement of activities as increases or decreases in net assets.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

For the years ended December 31, 2009 and 2008, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investments in debt securities is based on instruments with similar terms and interest rates.

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
U.S. Government obligations	\$ 3,019,620	\$ -	\$ 3,019,620	\$ -
Federal agency obligations	14,809,196	-	14,809,196	-
Corporate bonds	1,183,973	-	1,183,973	-
Commercial paper	622,172	-	573,422	48,750
Total Assets	\$ 19,634,961	\$ -	\$ 19,586,211	\$ 48,750

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
U.S. Government obligations	\$ 2,421,040	\$ -	\$ 2,421,040	\$ -
Federal agency obligations	12,244,793	-	12,244,793	-
Corporate bonds	2,403,953	-	2,403,953	-
Commercial paper	1,991,260	-	1,958,760	32,500
Equity security	152,117	152,117	-	-
Total Assets	\$ 19,213,163	\$ 152,117	\$ 19,028,546	\$ 32,500

The changes in level 3 assets measured at fair value are summarized below:

	2009	2008
Commercial paper, beginning of year	\$ 32,500	\$ 245,438
Unrealized investment gains (losses)	16,250	-
Impairment loss on investments	-	(212,938)
Commercial paper, end of year	\$ 48,750	\$ 32,500

Recoupment from Insolvent Insurers Estates

Recoupments from insolvent insurer's estates represent amounts received by the Association from the liquidator upon funds becoming available for liquidation distribution or early access. Receipts from the insolvent insurer's estates are presented as revenues on the statements of activities – modified cash basis.

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008**

(2) Summary of Significant Accounting Policies, Continued

Assessments

The Association derives its funding from the assessment of member insurers. Delaware law provides for three classes of assessments. Class A assessments are made for the purpose of meeting administrative costs and other general expenses not related to a particular insolvent insurer. Class B (BERG) assessments are made to partially subsidize the oversight activities of the Insurance Commissioner of the State of Delaware. Class C assessments are made to the extent necessary to carry out the powers and duties of the Association with regard to an insolvent insurer. Class A and B assessments are limited to once a year. Class A, B and C assessments are restricted by law as to the maximum amount that may be assessed.

The Board of Directors approved a Class B (BERG) assessment of \$650 per member in 2009 and 2008.

Claims and Claims Expense Liabilities

The liabilities for claims and claims expense are determined by the Claims Manager and Executive Director with oversight of the Board of Directors. The reserves for unsettled claims and related expenses of settlement are based on estimates made after reviewing the open claims files obtained from the insolvent insurers.

Unearned Premium Liability

The liability for unearned premium is determined by the Executive Director based on information provided to the Association from the liquidator for each insolvency, with the oversight of the Board of Directors. This reserve (which is charged to net assets until paid) is for the portion of premiums paid by the policyholder for which no insurance coverage was provided as the result of the insolvency. There are no unearned premiums liabilities or reserves as of December 31, 2009 and 2008.

Income Taxes

The Association is exempt from federal and state taxes under existing provisions of the Internal Revenue Code Section 501(c)(6) and the State of Delaware statute.

Use of Estimates

The preparation of financial statements in conformity with accounting practices recommended by the Accounting Issues Committee of the National Conference on Insurance Guaranty Funds requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

Notes to Financial Statements - Modified Cash Basis
December 31, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Subsequent Events

The Company has performed an evaluation of subsequent events through March 12, 2010, which is the date the financial statements were available to be issued.

(3) Investments

Investments consist of the following at December 31:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
U.S. Government obligations	\$ 3,013,002	\$ 3,019,620	\$ 2,375,219	\$ 2,421,040
Federal agency obligations	14,765,662	14,809,196	12,137,049	12,244,793
Corporate bonds	1,178,698	1,183,973	2,390,372	2,403,953
Commercial paper	605,922	622,172	2,000,472	1,991,260
Equity security	-	-	142,904	152,117
	<u>\$ 19,563,284</u>	<u>\$ 19,634,961</u>	<u>\$ 19,046,016</u>	<u>\$ 19,213,163</u>

The cost and fair value of marketable debt securities by contractual maturity at December 31, 2009 are as follows:

Maturity Date	Cost	Fair Value
2010	\$ 7,774,789	\$ 7,804,400
2011	7,900,029	7,912,479
2012	3,888,466	3,918,082
	<u>\$ 19,563,284</u>	<u>\$ 19,634,961</u>

Investment income consisted of the following for the years ended December 31:

	2009	2008
Interest and dividends	\$ 463,207	\$ 628,383
Realized investment gains (losses)	(12,600)	86,013
Impairment loss on investments	-	(212,938)
Unrealized investment gains (losses)	(95,470)	33,607
	<u>\$ 355,137</u>	<u>\$ 535,065</u>

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008

(3) Investments, Continued

The related fair values as presented in the accompanying financial statements are subject to various market fluctuations which include changes in the equity markets, the interest rate environment and general economic conditions.

(4) Certain Shared Expenses

The Association shares operating expenses with the Delaware Life and Health Guaranty Association (DLHGA) in accordance with an agreement executed between the Associations. The allocation percentage for specified costs is revised on an annual basis pursuant to a mutually agreed upon time study. Reimbursements from DLHGA for expenses paid by the Association are recorded as reductions to the appropriate expense categories.

(5) Operating Lease

The Association leases office space and a copier under separate noncancelable operating leases which expire at various dates through 2014. The Association's obligation for future rental payments under these leases is as follows:

Year Ending December 31,	Amount
2010	\$ 24,042
2011	23,631
2012	24,340
2013	24,578
2014	8,193
	\$ 104,784

Rent expense for these leases was \$24,492 and \$24,956 for 2009 and 2008, respectively.

(6) Employee Benefit Plan

The Association sponsors a defined contribution simplified employee pension plan covering all full-time employees meeting the plan's participation requirements. Eligible employees may elect to defer up to 25% of their compensation per year. In addition, the Board of Directors may approve a discretionary contribution made by the Association for eligible employees. During 2009 and 2008, the Board of Directors approved a discretionary contribution equal to 5% of employee's salary for all eligible employees made by the Association totaling \$14,925 and \$14,280, respectively.

DELAWARE INSURANCE GUARANTY ASSOCIATION

**Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008**

(7) Commitments and Contingencies

The insurance industry continues to be confronted with liabilities involving latent injury and environmental claims. The Association could be impacted by lawsuits in which insureds seek coverage for latent injury and environmental claims. Some coverage issues remain unsettled and cannot be determined with certainty at this time. Should these court decisions be adverse to the Association, assessments may be necessary.

(8) Insolvencies

The appropriate state insurance department possesses the authority to declare an insurance company insolvent based on a series of facts and circumstances.

The effective dates of insolvencies since inception of the Association are listed below:

Insolvent Insurer	Effective Date
Gateway Insurance Company	July 12, 1974
Interstate Insurance Company	October 1, 1974
Bankers Fire Insurance Company	May 12, 1976
Consolidated Mutual Insurance Company	November 13, 1978
Reserve Insurance Company	May 27, 1979
American Reserve Insurance Company	June 7, 1979
Proprietor's Insurance Company	August 5, 1981
Security Casualty Insurance Company	December 4, 1981
Colonial Assurance Company	March 28, 1984
Pacific American Insurance Company	January 23, 1985
Columbus Insurance Company	January 25, 1985
Ideal Mutual Insurance Company	February 7, 1985
Commonwealth Marine and General Assurance Company	May 29, 1985
Union Indemnity Insurance Company	July 16, 1985
Transit Casualty Company	December 3, 1985
Midland Insurance Company	April 3, 1986
American Druggists' Insurance Company	April 30, 1986
Allied Fidelity Insurance Company	July 1, 1986
Mission National Insurance Company	February 24, 1987
Mission Insurance Company	February 24, 1987

Continued...

DELAWARE INSURANCE GUARANTY ASSOCIATION

Notes to Financial Statements – Modified Cash Basis
December 31, 2009 and 2008

(8) Insolvencies, Continued

Insolvent Insurer	Effective Date
Integrity Insurance Company	March 24, 1987
Westmoreland Casualty Company	September 27, 1988
Mutual Fire Marine & Inland Insurance Co.	February 3, 1989
Yorktown Indemnity Company	February 7, 1989
American Mutual Liability Insurance Company	March 9, 1989
American Mutual Insurance Company of Boston	March 9, 1989
Great Atlantic Insurance Company	August 11, 1989
Remco Insurance Company	October 27, 1989
Horizon Assurance Company	April 19, 1990
Ohio General Insurance Co.	March 28, 1990
Rockwood Insurance Company	August 26, 1991
International Underwriters Insurance Company	March 11, 1993
Employers Casualty Company	February 11, 1994
United Community Insurance Company	November 9, 1995
Quaker City Insurance Company	October 1, 1997
U.S. Capital Insurance Company	November 20, 1997
American Eagle Insurance Company	December 22, 1997
LMI Insurance Company	May 23, 2000
Commercial Compensation Insurance Company	September 26, 2000
Credit General Insurance Capital Company	January 5, 2001
Reliance Insurance Company	October 3, 2001
PHICO Insurance Company	February 1, 2002
Whitehall Insurance Company	April 10, 2003
Home Insurance Company	June 13, 2003
Reciprocal of America Insurance Company	June 20, 2003
Freemont Indemnity Company	July 12, 2003
Legion Insurance Company	July 28, 2003
Villanova Insurance Company	July 28, 2003
State Capital Insurance Company	June 21, 2004
Casualty Reciprocal Exchange	August 18, 2004
Equity Mutual Insurance Company	August 18, 2004
South Carolina Insurance Company	March 21, 2005
Vesta Fire Insurance Corporation	August 1, 2006
Shelby Casualty Insurance Company	August 1, 2006
MIIX Insurance Company	April 9, 2008